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STATE PLEASE PASS USTR FOR STRATFORD, MAIN

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SUBJECT: PROGRESS IN THE JCCT INSURANCE DIALOGUE

¶1. (U) Summary. China will act on a USG request to amend its administrative regulations of the insurance industry to distinguish between serious and minor violations to avoid overly-penalizing minor transgressions, a senior China Insurance Regulatory Commission (CIRC) official told visiting Assistant USTR. The Ministry will not, however, agree to two other long-standing US "asks" to lift restrictions on third party auto liability insurance and on asset management at this time, he said. CIRC is interested in convening a meeting between US and Chinese experts to discuss financial market regulation and other topics relevant to the insurance industry. End Summary.

¶2. (U) China will amend its administrative regulations of the insurance industry to differentiate between serious and minor violations such that minor violations will not be subject to the two year ban on opening new branch offices China Insurance Regulatory Commission (CIRC) Vice Chairman Li Kemu told Assistant US Trade Representative Tim Stratford September 24. Li noted this issue had been raised by the US during the Joint Commission on Commerce and Trade (JCCT) Insurance Dialogue in September in Dalian. He said China hopes to publish the revision to the law before the October 28 JCCT summit in Hangzhou and that the change could be highlighted as a positive outcome of the talks.

"No" to Third Party Insurance Participation

¶3. (U) Asked again about the possibility of opening up its third party auto liability insurance market to foreign company participation, Li stated CIRC is "actively studying" the issue. (Note: This has been a long-standing US "ask." End Note). AUSTR Stratford suggested CIRC could launch a pilot project to test the proposition before opening the entire market to foreign participation. Li agreed, saying that when CIRC decides to move forward on this issue, the Ministry would consider establishing a pilot zone.

¶4. (U) Li said the CIRC will not agree to lift insurance companies' 30 percent cap on investment in corporate bonds. He admitted both Chinese and American insurance companies would like to have the cap lifted, but, given the relatively immature state of the industry in China and the global financial crisis, the Ministry believes the limits are necessary. Li suggested, in the future, the CIRC might make a distinction between "capable" and "incapable" companies, allowing the former more discretion in asset management decisions.

"Yes" to Exchanging Information

¶5. (U) The CIRC's international department has formed a study group to analyze international practices in financial market regulation, Li explained. The group is particularly interested in how these practices are evolving given the

financial crisis and has three focus areas for the study - macro-prudential supervision, regulating financial innovation and countercyclical financial measures. Li said this group could meet with US experts to discuss asset management regulations and other topics of mutual interest.

¶6. (U) AUSTR Stratford asked about the status of Liberty Mutual's "preparation of branch" application. (Note: To allow the company to open an additional branch. End Note). Li replied CIRC is reviewing the application and that a "positive answer" would be forthcoming.

HUNTSMAN